SAIF Corporation

Financial Statements – Statutory Basis and Supplemental Schedules (as Restated) as of and for the Years Ended December 31, 2003 and 2002, and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Board of Directors
SAIF Corporation
and
The Secretary of State Audits Division,
State of Oregon

We have audited the accompanying statements of admitted assets, liabilities, capital and surplus—statutory basis of SAIF Corporation (the "Company"), a component of the State of Oregon, as of December 31, 2003 and 2002, and the related statements of revenues, expenses, capital and surplus—statutory basis and cash flows—statutory basis for the years then ended. These financial statements statutory basis are the responsibility of the Company's management. Our responsibility is to express an opinion on these statutory-basis financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory-basis financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, these financial statements were prepared in conformity with the accounting practices prescribed or permitted by the State of Oregon, Department of Consumer and Business Services, Insurance Division (the "Insurance Division"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of SAIF Corporation as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

As discussed in Note 19, the accompanying financial statements - statutory basis have been restated.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements statutory basis taken as a whole. The supplemental investment risk interrogatories and the summary investment schedule as of and for the year ended December 31, 2003 are presented to comply with the National Association of Insurance Commissioner's instructions to Annual Audited Financial Reports and are not a required part of the basic 2003 financial statements – statutory basis. This additional information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements- statutory basis and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2003 financial statements - statutory basis taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management of SAIF Corporation, the Secretary of the State Audits Division, and for filing with state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 17, 2004 (December 28, 2004 as to Notes 7, 18, 19 and 20)

SAIF CORPORATION

STATEMENT OF ADMITTED ASSETS, LIABILITIES, CAPITAL AND SURPLUS—STATUTORY BASIS
DECEMBER 31, 2003 and 2002 (In thousands)

ADMITTED ASSETS	2003 As Restated (see Note 19)	2002 As Restated (see Note 19)
CASH AND INVESTED ASSETS:		
Bonds	$ 2,116,167	$ 2,155,153
Preferred stocks	35,943	13,711
Common stocks	369,391	315,446
Mortgage loans on real estate—first liens	602	1,091
Real estate, net of accumulated depreciation of $8,251 and $7,529:		
Properties occupied by the Company	19,140	19,829
Properties held for the production of income	977	1,008
Cash and short-term investments	116,227	380,438
Other invested assets	30,498	31,202
Receivable for securities sold	130,617	40,888
Total cash and invested assets	2,819,562	2,958,766
Interest, dividends and real estate income due and accrued	20,181	18,315
Premiums in course of collection	8,464	8,353
Premiums and installments booked but deferred and not yet due	59,498	48,622
Accrued retrospective premiums receivable	55,430	48,697
Reinsurance recoverables	143	118
Electronic data processing (EDP) equipment and software, net of accumulated depreciation of $15,428 and $15,144	1,068	1,681
Due from Workers' Compensation Division	12,238	12,505
Other assets, net of accumulated depreciation of $3,345 and $3,578	10,193	9,457
TOTAL	$ 2,986,777	$ 3,106,514

LIABILITIES, CAPITAL AND SURPLUS

	2003	2002
LIABILITIES:		
Losses	$ 2,002,403	$ 1,872,291
Loss adjustment expenses	348,633	347,853
Other expenses	13,217	13,357
Taxes, licenses and fees	14,502	14,824
Unearned premiums	50,915	43,067
Advance premiums	2,800	2,637
Ceded reinsurance premiums payable	2,377	1,939
Amounts withheld or retained for account of others	25,757	17,075
Payable for securities purchased	51,952	468,778
Accrued retrospective premiums payable	25,765	12,171
Total liabilities	2,538,321	2,793,992
CAPITAL AND SURPLUS—Unassigned funds	448,456	312,522
TOTAL	$ 2,986,777	$ 3,106,514

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENT OF REVENUES, EXPENSES, CAPITAL AND SURPLUS—STATUTORY BASIS
YEARS ENDED DECEMBER 31, 2003 AND 2002 (In thousands)

	2003 As Restated (see Note 19)	2002 As Restated (see Note 19)
UNDERWRITING REVENUES—Premiums earned	$ 312,050	$ 287,635
UNDERWRITING EXPENSES:		
Losses incurred	339,872	312,162
Loss adjustment expenses incurred	37,469	49,152
Other underwriting expenses incurred	81,288	77,346
Total underwriting expenses	458,629	438,660
NET UNDERWRITING LOSS	(146,579)	(151,025)
NET INVESTMENT INCOME:		
Net investment income earned	96,499	109,284
Net realized capital gains	20,263	10,134
Net investment income	116,762	119,418
OTHER INCOME:		
Net loss from premium balances charged off	(1,084)	(2,162)
Premium assessment income	26,341	22,492
Other (expense) income	(2,428)	918
Total other income—net	22,829	21,248
NET LOSS	$ (6,988)	$ (10,359)
CAPITAL AND SURPLUS:		
Unassigned funds—beginning of year (as previously reported)		$ 374,678
Prior Period Adjustment		48,835
Unassigned funds—beginning of year (as restated)	$ 312,522	423,513
Net loss	(6,988)	(10,359)
Net unrealized capital gains (losses)	143,253	(98,868)
Change in nonadmitted assets	(331)	(1,764)
Net change in capital and surplus	135,934	(110,991)
Unassigned funds—end of year, as restated	$ 448,456	$ 312,522

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENT OF CASH FLOWS—STATUTORY BASIS
YEARS ENDED DECEMBER 31, 2003 AND 2002 (In thousands)

	2003	2002
CASH FROM OPERATIONS:		
Cash from underwriting:		
Premiums collected net of reinsurance	$ 310,795	$ 264,241
Loss and loss adjustment expenses paid	(246,449)	(226,255)
Underwriting expenses paid	(78,902)	(76,520)
Total cash from underwriting	(14,556)	(38,534)
Net investment income	109,841	111,419
Premium assessment income	26,342	22,492
Recovered from Oregon Workers' Compensation Division	267	425
Other expenses	(3,775)	(295)
Net cash from operations	118,119	95,507
CASH FROM INVESTMENTS:		
Proceeds from investments sold, matured or repaid:		
Bonds	3,514,485	6,549,818
Common and preferred stocks	491,436	90,562
Mortgage loans	491	555
Other invested assets	790	11,579
Net gains (losses) on cash and short-term investments	70	(22)
Miscellaneous payments	(89,729)	(31,503)
Total proceeds from investments sold, matured or repaid	3,917,543	6,620,989
Cost of investments acquired:		
Bonds	3,428,265	6,607,513
Common and preferred stocks	466,163	84,314
Real estate	2	
Miscellaneous receipts (payments)	416,826	(167,166)
Total cost of investments acquired	4,311,256	6,524,661
Net cash from investments	(393,713)	96,328
CASH FROM FINANCING AND MISCELLANEOUS SOURCES:		
Other cash provided	12,020	3,489
Other cash applied	(637)	(1,930)
Net cash from financing and miscellaneous sources	11,383	1,559
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS:		
Net (decrease) increase in cash and short-term investments	(264,211)	193,394
Cash and short-term investments:		
Beginning of year	380,438	187,044
End of year	$ 116,227	$ 380,438

See notes to financial statements—statutory basis.

1. NATURE OF OPERATIONS

SAIF Corporation (the "Company") is a public corporation created by an act of the Oregon Legislature. It traces its origins to 1914 when its predecessor organization commenced business.

The Company is an insurance company authorized to write workers' compensation coverage in Oregon and certain other jurisdictions as required by the Department of Consumer and Business Services ("DCBS") and to service accounts in the assigned risk pool. The Company also provides coverage governed by the Longshoremen's and Harbor Workers' Compensation Act, Jones Act and Federal Employers Liability Law. The Company's Board of Directors is appointed by the Governor of the State of Oregon (the "State") and consists of prominent Oregon business and community leaders not otherwise in the employ of the Company.

The Company writes business on a direct basis and through agents. Premiums written on a direct basis were 30.7% and 32.4% of standard premium during 2003 and 2002, respectively.

The Department of Consumer and Business Services ("DCBS") enforces workers' compensation laws under Oregon Revised Statutes ("ORS"). Under the reporting requirements of the State of Oregon, DCBS, Insurance Division, SAIF's calculated minimum surplus amount is $253.3 million and $253.0 million at December 31, 2003 and 2002, respectively. At December 31, 2003 and 2002, the statutory surplus of SAIF exceeded the minimum requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The Company's financial statements-statutory basis are presented on the basis of accounting practices prescribed or permitted by the State of Oregon, Department of Consumer and Business Services, Insurance Division (the "Insurance Division").

The Insurance Division has adopted the National Association of Insurance Commissioners' ("NAIC") codification of statutory accounting practices ("SAP") as the basis of its statutory accounting practices.

Accounting practices and procedures of the NAIC as prescribed or permitted by the insurance departments of the applicable states of domicile comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). The more significant differences are as follows:

(a) Investments in bonds are generally carried at amortized cost, while under GAAP they are carried at either amortized cost or fair value based on their classification according to the Company's ability and intent to hold or trade the securities;

(b) Investments in common stocks are valued as prescribed by the Securities Valuation Office ("SVO") of the NAIC, while under GAAP common stocks are reported at market value;

(c) Acquisition costs, such as commissions and other costs related to acquiring new business, are expensed as incurred, while under GAAP they are deferred and amortized to income as premiums are earned or in relation to estimated gross profits; and

(d) Assets are reported under SAP at "admitted asset" value and "nonadmitted" assets are excluded through a charge against surplus, while under GAAP "nonadmitted assets" are reinstated to the balance sheet, net of any valuation allowance.

Use of Estimates—The preparation of statutory-basis financial statements in accordance with SAP requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Premiums in course of collection, premiums and installments booked but deferred and not yet due, accrued retrospective premiums receivable and payable, losses and loss adjustment expenses, unearned premiums, and advance premiums represent significant estimates. Actual results could differ significantly from those estimates.

Cash and Short-Term Investments—Oregon's State Treasurer employs the services of three external investment managers to manage the Company's funds: one that manages a convertible bond portfolio and two that manage fixed income portfolios. The cash balances of the convertible bond manager are invested in the SSgA Money Market Fund and the cash of the fixed income managers was invested in the State Street Short Term Investment Fund ("STIF") through mid-September 2003 and the SSgA Prime Money Market Fund for the remainder of 2003. These funds seek to maximize current income while maintaining a stable $1.00 unit value by investing in high-quality, short maturity securities. The average maturity of the SSgA Money Market Fund as of December 31, 2003 and 2002 was 58 days and 55 days, respectively. The average maturity of the SSgA Prime Money Market Fund as of December 31, 2003 was 61 days and the average maturity for the State Street STIF as of December 31, 2003 and 2002 was 61 days and 53 days, respectively.

The Company places its temporary cash investments with the Oregon Short Term Fund. The Oregon Short Term Fund is a cash and investment pool that operates as a demand deposit account. As a result, the Company's investment is not impacted by changes in the market value of the Oregon Short Term Fund. By statute, the Oregon Short Term Fund may hold securities with maturities no greater than three years. The average maturity of the Oregon Short Term Fund as of December 31, 2003 and 2002 was 174 days and 93 days, respectively.

Investments—For all investments, impairments are recorded when it is determined that the decline in fair value of an investment below its amortized cost is other than temporary. Impairment charges are reflected in net realized capital gains or losses. The cost basis of the investment is then adjusted to reflect the impairment.

Bonds not backed by other loans are generally stated at amortized cost using the scientific interest method. Noninvestment grade bonds are stated at the lower of amortized cost or fair value. There were no bonds held by the Company which were in or near default at December 31, 2003. The Company recognized a $2.7 million other-than-temporary impairment on its investments in WorldCom bonds during the year ended December 31, 2002.

Mortgage-backed securities are stated at either amortized cost or the lower of amortized cost or fair value. Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values. Changes in estimated cash flows from the original purchase assumptions are accounted for using the prospective method. Interest only securities and securities where the yield has become negative are valued using the prospective method. In 2003 and 2002, there were no securities which changed from the retrospective to the prospective methodology due to negative yields.

Common stocks are carried at NAIC-designated market value. The change in the stated value is recorded as a change in net unrealized capital gains or losses, a component of unassigned funds.

Preferred stocks are stated at cost, lower of cost or amortized cost, or NAIC-designated market values depending on the assigned credit rating and whether the preferred stock has mandatory sinking fund provisions.

Mortgage loans on real estate are stated at the amortized unpaid principal balance.

The Company has minority ownership interests in joint ventures. The Company carries these interests based on the underlying unaudited GAAP equity of the investee as of September 30, 2003, adjusted for distributions or disposals.

Net investment income earned consists primarily of interest and dividends less investment expenses. Interest is recognized on an accrual basis and dividends are recorded as earned at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method based on estimated principal repayments. Accrual of income is suspended for bonds and mortgage loans that are in default or when the receipt of interest payments is in doubt. Realized capital gains and losses are determined on a specific identification basis.

Accrued interest more than 180 days past due deemed collectible on mortgage loans in default is nonadmitted. All other investment income due and accrued with amounts over 90 days past due is nonadmitted. At December 31, 2003 and 2002, no accrued interest or other investment income due and accrued was excluded from unassigned funds.

Concentrations of Credit Risk—Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and short-term investments, stocks and bonds. The Company invests in securities with high-credit quality financial institutions and limits the amounts of credit exposure to any one financial institution. Concentrations of credit risk with respect to investments in debt securities are limited due to the large number of such investments and their distribution among U.S. government bonds, many different industries and geographic regions.

Premiums and Related Commissions—Premiums are earned over the terms of the related insurance policies and reinsurance contracts. A liability for unearned premiums is established to cover the unexpired portion of premiums written. Such liability is computed by pro rata methods for direct business and is based on reports received from ceding companies for reinsurance.

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to expense as incurred.

Premiums and installments booked but deferred and not yet due primarily represent an estimate of the difference between amounts earned ratably on installment-billed policies and the amount to be billed on the policy. Premiums and installments booked but deferred and not yet due also include estimated billings on payroll reporting policies which were earned but not billed prior to year-end. The Company uses its historical experience to estimate earned but not billed amounts. These unbilled amounts are estimates, and while the Company believes such amounts are reasonable, there can be no assurance the amounts ultimately received will equal the recorded unbilled amounts. The ultimate collectibility of the unbilled amounts can be affected by general changes in the economy and the regulatory environment due to the increased time required to determine the billable amount. The Company considers these factors when estimating the premiums and installments booked but deferred and not yet due.

Certain policyholders are required to remit deposits which represent premium expected to be payable to the Company at the end of the month following the reporting period (monthly and quarterly), plus one additional month. Deposits are generally in the form of cash and are recorded in amounts withheld or retained by the Company for account of others. However, policyholders may pledge surety bonds and securities in lieu of cash deposits.

In addition to its regular premium plans, the Company offers employers retrospective premium rating plans under which premiums are adjusted annually for up to 4-1/2 years following the plan year based on policyholders' loss experience. Adjustments to the original premiums are paid to or collected from the policyholders six months following the expiration of the policy and annually thereafter for up to 4 1/2 years. The amounts of expected ultimate settlements are included in the accompanying statements of admitted assets, liabilities, capital and surplus as accrued retrospective premiums receivable and payable. Changes in estimated settlements are recorded at the time they are known.

Retrospectively Rated Contracts—The Company estimates accrued retrospective premiums receivable and payable by reviewing historical loss and premium development patterns at various stages of maturity and using these historical patterns to arrive at the best estimate of return and additional retrospective premiums on all open retrospectively rated policies. Premiums written on retrospective workers' compensation policies for 2003 and 2002 were $78.9 million and $95.7 million, or 25% and 33% of total premiums written, respectively.

The Company has nonadmitted 10% of the amount of accrued retrospective premiums receivable not offset by accrued retrospective premiums payable, other liabilities to the same party (other than loss and loss adjustment expense reserves), or collateral as follows (in thousands):

	2003	2002
Total accrued retrospective premiums receivable	$61,589	$54,107
Less nonadmitted amount (10%)	6,159	5,410
Admitted accrued retrospective premiums receivable	$55,430	$48,697

Losses and Loss Adjustment Expenses—Losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported ("IBNR"). Actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease and inflation, and other societal and economic factors. As a result, the process used in computing the ultimate cost of settling losses and expenses for administering losses is necessarily based on assumptions and estimates. While management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined.

Currently, the Company discounts the reserve for losses for known unpaid fatal and permanent total disability losses. The Company does not discount the reserve for losses for unpaid fatal and permanent total disability loss adjustment expenses. The discount rate used by the Company was 3.5% at December 31, 2003 and 2002. Annually, the Board of Directors reviews the actuarial assumptions and discount rates utilized in determining the liability for such losses. The discount reduced the reserve for losses by $100.4 million and $101.1 million at December 31, 2003 and 2002, respectively.

Managed Care Organization Fees—The Company contracts with managed care organizations ("MCOs"). MCOs manage claims by arranging to provide medical and health care services under capitation agreements. The expense is based on the number of claims accepted and closed at a specific negotiated rate while managed by an MCO. Claims covered by contracts with MCOs were approximately 87% and 86% of total claims during 2003 and 2002, respectively.

Fixed Assets—Fixed assets are carried at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred. The Company provides for depreciation of fixed assets using the straight-line method over the estimated useful lives of the assets as follows:

Real estate	30 to 40 years
Furniture, equipment and automobiles	3 to 7 years
Data processing software	3 years

Depreciation expense was approximately $3.1 million and $3.5 million for the years ended December 31, 2003 and 2002, respectively.

Management reviews fixed assets for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If there is an indication of impairment, management prepares an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value.

Taxes and Assessments—The Oregon Department of Justice has determined that the Company is exempt from federal taxes because it is an integral part of the State of Oregon and, alternatively, exempt under either or both Sections 501(c)(27)(B) and 115(1) of the Internal Revenue Code.

The Company is subject to levies by the Oregon Workers' Compensation Division of the Department of Consumer and Business Services. Such assessments constitute an in-lieu-of-tax relative to premiums. Premium assessments were $24.5 million and $23.1 million for the years ended December 31, 2003 and 2002, respectively. Accrued premium assessments payable were $9.7 million and $9.9 million as of December 31, 2003 and 2002, respectively.

Internally Developed Software—Internal and external costs incurred to develop internal-use computer software and web sites during the application development stage and infrastructure stage are capitalized; costs incurred during the preliminary project stage and post-implementation/operation stage are expensed as incurred. The threshold for capitalization of internally developed software is set at $500,000.

Prepaid Expenses—In September 2002, the NAIC adopted SSAP No. 87, *Capitalized Policy, an Amendment to SSAP Nos. 4, 19, 29, 73, 79 and 82*. This statement requires that a redefined threshold be established for capitalization of certain assets and that any purchase that does not meet that predefined threshold be expensed. This statement is effective for years beginning on or after January 1, 2004, with earlier adoption encouraged, and was adopted by the Company on January 1, 2003. There was no predefined threshold for prepaid expenses ("SSAP No. 29"). The threshold for capitalization of prepaid expenses was set at $500,000 upon adoption. The adoption of this standard did not affect the Company's results of operations, financial positions or cash flows.

3. ACCOUNTING CHANGES

The Company prepares its statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the Insurance Division. The Insurance Division requires that insurance companies domiciled in the State of Oregon prepare their statutory-basis financial statements in accordance with the NAIC Accounting Practices and Procedures Manual—Version effective March 2003 and 2002, subject to any deviations prescribed or permitted by the Insurance Division. Certain reclassifications have been made to prior-year balances to conform with current-year presentation. Such reclassifications do not affect previously reported income.

4. INVESTMENTS

Oregon's State Treasurer acts as the Company's investment officer, investing in any instrument in which persons of prudence, discretion and intelligence would invest for their own accounts. The Oregon Investment Council establishes the Company's investment policy.

Bond, mortgage-backed, asset-backed and equity security transactions are recorded on a trade date basis, generally three business days prior to the settlement date. However, the number of days between trade and settlement dates for mortgage-backed securities can be up to 30 days or longer depending on the security. Receivables for securities not received within 15 days from the settlement date are nonadmitted. There were no such receivables at December 31, 2003 and 2002.

The book/adjusted carrying value and NAIC-designated fair value of the Company's investment securities were as follows at December 31, 2003 and 2002 (in thousands):

2003	Book/Adjusted Carrying Value	NAIC - Designated Fair Value	Excess of NAIC Fair Value over (under) Book/Adjusted Carrying Value
Bonds:			
U.S. government	$ 427,128	$ 423,486	$ (3,642)
All other governments	39,404	41,098	1,694
Special revenue and special assessment	4,778	4,744	(34)
Public utilities	89,892	95,132	5,240
Industrial and miscellaneous	641,057	690,807	49,750
Asset-backed securities	913,908	913,930	22
Total bonds	$2,116,167	$2,169,197	$53,030
Short-term investments	$ 90,621	$ 90,621	$ -
Stocks:			
Preferred stock	$ 35,943	$ 39,498	$ 3,555
Common stock	369,391	369,391	
Total stocks	$ 405,334	$ 408,889	$ 3,555

2002	Book/Adjusted Carrying Value	NAIC - Designated Fair Value	Excess of NAIC Fair Value over (under) Book/Adjusted Carrying Value
Bonds:			
U.S. government	$ 209,227	$ 223,810	$ 14,583
All other governments	39,296	42,882	3,586
Special revenue and special assessment	363	437	74
Public utilities	143,067	150,383	7,316
Industrial and miscellaneous	696,565	727,822	31,257
Asset-backed securities	1,066,635	1,066,635	
Total bonds	$2,155,153	$2,211,969	$ 56,816
Short-term investments	$ 310,784	$ 310,784	$ -
Stocks:			
Preferred stock	$ 13,711	$ 13,763	$ 52
Common stock	315,446	315,446	
Total stocks	$ 329,157	$ 329,209	$ 52

Proceeds from the sale and maturity of bonds were $3.5 billion and $6.5 billion during 2003 and 2002, respectively. Proceeds from the sale of stocks were $491.4 million and $90.6 million during 2003 and 2002, respectively.

The book/adjusted carrying value and NAIC-designated fair value of bonds at December 31, 2003 and 2002, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2003		2002	
	Book/ Adjusted Carrying Value	NAIC-Designated Fair Value	Book/ Adjusted Carrying Value	NAIC-Designated Fair Value
Due in one year or less	$ 316,209	$ 316,591	$ 179,105	$ 179,450
Due after one year through five years	690,007	697,471	507,042	512,909
Due after five years through ten years	476,147	497,881	491,073	511,574
Due after ten years	633,804	657,254	977,933	1,008,035
Total	$2,116,167	$2,169,197	$2,155,153	$2,211,968

Net investment income is comprised of the following for the years ended December 31, 2003 and 2002 (dollars in thousands):

	2003	2002
Interest income	$ 103,955	$ 116,360
Net realized gains	20,263	10,134
Investment income	124,218	126,494
Less investment expense	(7,456)	(7,076)
Net investment income	$ 116,762	$ 119,418

Gross realized gains and losses and the net realized gains (losses) from investment securities consist of the following for the years ended December 31, 2003 and 2002 (in thousands):

2003	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
Bonds	$65,771	$(19,233)	$ 46,538
Preferred stocks	1,827	(1,366)	461
Common stocks	2,925	(29,731)	(26,806)
Short-term investments	70		70
Total	$70,593	$(50,330)	$ 20,263
2002			
Bonds	$69,012	$(44,993)	$ 24,019
Preferred stocks	2,480	(17,255)	(14,775)
Common stocks	1,944	(177)	1,767
Short-term investments	1	(23)	(22)
Other invested assets	541	(1,396)	(855)
Total	$73,978	$(63,844)	$ 10,134

5. SECURITIES LENDING

In accordance with State investment policies, the Company participates in securities lending transactions. The Oregon State Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company ("State Street") to lend the Company's securities to broker-dealers and banks pursuant to a form of loan agreement. Both the Company and the borrowers maintain the right to terminate all securities lending transactions on demand. There have been no significant violations of the provisions of securities lending agreements.

During 2003 and 2002, State Street loaned the Company's fixed income and equity securities and received as collateral U.S. dollar-denominated cash. Borrowers were required to deliver cash collateral for each loan equal to at least 102% of the fair value of the loaned security, or 105% in the case of international equity securities. The Company did not impose any restrictions on the amount of the loans State Street made on its behalf. The Company was fully indemnified by State Street against losses due to borrower default, and there were no losses from the failure of borrowers to return loaned securities. There were no restrictions on collateral held by the Company at December 31, 2003 and 2002.

State Street is authorized by the Securities Lending Agreement to invest cash collateral received for securities loaned in the State Street Bank and Trust Company Oregon Short-Term Investment Fund (the "Fund"). The fair value of the Company's position in this fund is not the same as the value of the Fund's shares, because unrealized gains and losses on the Fund's investments included in its fair value are not distributed to fund participants. At December 31, 2003 and 2002 the Fund had an average weighted maturity of 325 days and 347 days, respectively. Since the securities loaned are callable on demand by either the lender or borrower, the life of the loans at December 31, 2003 is effectively one day and consequently does not generally match the life of the investments in the Fund. On December 31, 2003 the Company had no credit risk exposure to borrowers. Under SAP, the collateral held for the Company's securities on loan at December 31, 2003 and 2002 were $471.3 million and $151.1 million, respectively. The fair value including accrued income of the Company's securities on loan at December 31, 2003 and 2002 were $461.8 million and $147.9 million, respectively. These amounts are not included in the Company's statutory-basis financial statements. Securities lending income was $2.1 million and $4.6 million for 2003 and 2002, respectively. Securities lending expense was $1.7 million and $3.8 million for 2003 and 2002, respectively. These amounts are reported net in the Company's statutory-basis financial statements.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The book/adjusted carrying value and NAIC-designated fair value of financial instruments at December 31, 2003 and 2002 are as follows (in thousands):

	2003		2002	
	Book/Adjusted Carrying Value	NAIC-Designated Fair Value	Book/Adjusted Carrying Value	NAIC-Designated Fair Value
Fair value of financial instruments:				
Bonds	$ 2,116,167	$ 2,169,197	$ 2,155,153	$ 2,211,968
Preferred stock	35,943	39,498	13,711	13,763
Common stock	369,391	369,391	315,446	315,446
Mortgage loans	602	602	1,091	1,091
Short-term investments	90,621	90,621	310,784	310,784
Total	$ 2,612,724	$ 2,669,309	$ 2,796,185	$ 2,853,052

7. LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in losses and loss adjustment expenses is summarized as follows (in thousands):

	2003 As Restated (see Note 19)	2002 As Restated (see Note 19)
Gross reserve for loss and loss adjustment expenses at beginning of year	$2,295,918	$2,149,234
Less reinsurance recoverables at beginning of year	(75,775)	(64,150)
Net balance—beginning of year	2,220,143	2,085,084
Incurred related to:		
Current year	382,922	385,309
Prior year	(5,581)	(23,995)
Total incurred	377,341	361,314
Paid related to:		
Current year paid	81,714	76,336
Prior year	164,735	149,919
Total paid	246,449	226,255
Net balance—end of year	2,351,035	2,220,143
Plus reinsurance recoverables at end of year	74,128	75,775
Gross reserve for loss and loss adjustment expenses at end of year	$2,425,163	$2,295,918

The favorable prior-year loss development noted above was the result of fewer permanent total disability claims than expected.

The Company discounts its case unpaid losses on a tabular basis using the 1999 United States Life Tables, the 1980 United States of America Railroad Retirement Board Remarriage Table and a discount rate of 3.5%. The Company does not discount any incurred but not reported reserves, medical unpaid losses or unpaid loss adjustment expenses. Discounted reserves include fatal and permanent total disability losses. Gross reserves subject to tabular discounting were $517.4 million and $529.7 million for 2003 and 2002, respectively. The discounts were $100.4 million and $101.1 million as of December 31, 2003 and 2002, respectively.

Anticipated salvage and subrogation of $11.4 million and $12.8 million is included as a reduction of the reserve for losses at December 31, 2003 and 2002, respectively.

Risk Management—The State of Oregon administers property and casualty insurance programs covering State government agencies through its Insurance Fund. The Insurance Fund services claims for: direct physical loss or damage to State property; tort liability claims brought against the State, its officers, employees or agents; workers' compensation; and employees, elected officials and members of commissions and boards for honesty and faithful performance. The Insurance Fund is backed by a commercial excess property policy with limits of $375 million and a blanket commercial excess bond with limits of $10 million.

As a state agency, the Company participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each State entity based on its share of services provided in a prior period. The total statewide assessment of each coverage is based on independent biennial actuarial forecasts and administrative expenses, less carryforward or equity in the Insurance Fund. Assessments were $242 thousand and $306 thousand for the years ended December 31, 2003 and 2002, respectively.

8. DEFERRED COMPENSATION PLAN

A deferred compensation plan (the "Plan") was authorized under Internal Revenue Code Section 457 and ORS 243.400 to 243.495. The Plan is a benefit available to all employees wherein they may execute an individual agreement with the Company to defer a portion of their current income until future years so as to shelter such funds from federal and state taxation until withdrawal. Participants cannot receive the funds until certain circumstances are met. Funds withheld from employees and remitted to the Plan have been invested with various financial institutions and insurance companies. Plan assets are held in a custodial account or an annuity contract by the Plan provider for the exclusive benefit of the participants or beneficiary. Participants' rights under the Plan are equal to the fair market value of the deferred account for each participant.

9. RETIREMENT PLAN

The majority of the Company's employees participate in the Oregon Public Employees' Retirement System ("PERS"), a cost-sharing multiple-employer defined benefit pension plan. The Public Employees Retirement Board under the guidelines of ORS Chapter 238 administers PERS. The PERS retirement allowance, payable monthly for life, may be selected from thirteen retirement benefit options. Options include survivorship benefits and lump sum refunds. The basic benefit formula is 1.67% of a member's final average salary multiplied by the member's number of years of service. Benefits may also be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits. A copy of the Oregon Public Employees' Retirement System annual financial report may be obtained from PERS, P.O. Box 23700, Tigard, Oregon 97281-3700.

Most SAIF employees are eligible to participate in PERS after completing six months of service. Covered employees are required by state statutes to contribute 6.0% of their salary to the plan. Current law permits employers to pay employee contributions to PERS, which the Company has elected to do. The Company is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. At December 31, 2003, the rate was 4.71% of each covered employee's salary. The amounts contributed by the Company for the years ended December 31, 2003 and 2002 were $6.7 million and $6.6 million, respectively. Employee contributions paid by the Company for the years ended December 31, 2003 and 2002 were $2.6 million and $2.5 million respectively.

SAIF employees hired after August 29, 2003 are eligible to participate in the Oregon Public Service Retirement Plan ("OPSRP") after completing six months of service. OPSRP is a hybrid pension plan administered by the Public Employees' Retirement Board with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). At December 31, 2003, there were no SAIF employees eligible to participate in OPSRP.

The System does not make separate measurements of assets and pension benefit obligation for individual employers. Therefore, the present value of accrued benefits, the amount of vested benefits, and the fair value and market value of the plan assets as of the most recent actuarial valuation date is not available.

10. CAPITAL AND SURPLUS

The cumulative increase (decrease) to capital and surplus reported in the statutory-based financial statements due to each item below is as follows at December 31, 2003 and 2002 (in thousands):

	2003	2002
Net unrealized capital gains (losses)	$ 10,939	$ (132,314)
Nonadmitted assets	$ (16,667)	$ (16,337)

The Company is subject to Risk Based Capital ("RBC") reporting requirements of the NAIC, which establishes that certain required amounts of capital be maintained. As of December 31, 2003, the Company's RBC exceeded the required amount, in connection with its NAIC statutory filing. While the Company is not subject to the minimum capital requirements set forth in ORS, the Company uses various benchmarking and risk level techniques to monitor and maintain an adequate level of surplus.

11. CONTINGENCIES

The Company has entered into structured settlements wherein the Company has purchased annuities of which the claimant is payee but for which the Company is contingently liable. The amount of the contingent liability is the amount of the liability due to the various claimants that has been offset by the purchase of the annuity. Contingent liabilities arising from these settlements were $5.2 million and $5.6 million at December 31, 2003 and 2002, respectively.

From time to time the Company is involved in pending or threatened litigation in the normal course of business in which claims for monetary damages are asserted. In the opinion of management, the ultimate liability, if any, arising from such pending or threatened litigation is not expected to have a material effect on the results of operations, liquidity or financial position of the Company. See Note 20 for discussion of subsequent event contingencies.

12. LEASE COMMITMENTS

The Company leases office space in several locations under noncancelable operating leases expiring during various years through 2010. Lease expense was $587 thousand and $581 thousand for the years ended December 31, 2003 and 2002, respectively. At December 31, 2003, the minimum aggregate rental commitments are as follows (in thousands):

2004	$ 557
2005	556
2006	499
2007	399
2008	412
Thereafter	812
Total minimum lease payments	$ 3,235

Certain rental commitments have renewal options extending through the year 2018. Some of these renewals are subject to adjustments in future periods. Total minimum lease payments have not been reduced by minimum sublease rentals of approximately $421 thousand on leases due in the future under noncancelable subleases as of December 31, 2003.

13. WASH SALES

In the course of the Company's asset management, securities are sold and reacquired within 30 days of the sale date to enhance the Company's yield on its investment portfolio.

The aggregate detail of securities with NAIC designation of 3 or below sold during the year ended December 31, 2002 and reacquired within 30 days of the sale date is as follows (in thousands):

2002	Number of Transactions	Book Value of Securities Sold	Cost of Securities Repurchased	Loss
Bonds:				
NAIC 3	1	$251,639	$ 1,033	$ (17)

14. SECURITIES ON DEPOSIT

Securities with an amortized cost of $3.1 million at December 31, 2003 and 2002 were on deposit with the Federal Reserve as required by the U.S. Department of Labor under the Longshoremen's and Harbor Workers' Compensation Act.

15. REINSURANCE

In the ordinary course of business, the Company cedes premiums for purposes of risk diversification and limiting maximum loss exposure from catastrophic events through contractual agreements with reinsurers. If such assuming reinsurers are unable to meet the obligations assumed under these reinsurance agreements, the Company would be liable to pay the obligation. To minimize its exposure to significant losses from reinsurer insolvencies, the Company regularly evaluates the financial condition of its reinsurers and monitors concentration of credit risk.

The Company maintains reinsurance protection providing limits of $70 million in excess of a $30 million per occurrence with a $2 million maximum on any one life and a $140 million aggregate limit. This reinsurance protection excludes coverage for nuclear, biological or chemical terrorist attacks. During 2003, the Company had reinsurance protection for 90% of losses in excess of 7% of 2002 direct earned premium for acts of foreign terrorism through the Federal Reinsurance Act.

The following amounts have been deducted in the accompanying statutory-basis financial statements as a result of reinsurance ceded (in thousands):

	2003	2002
Liability for losses and loss adjustment expenses	$ 74,128	$ 76,195
Premiums earned	2,988	1,063
Losses and loss adjustment expenses incurred	1,393	(7,159)

The Company is authorized to write business on behalf of the Oregon Workers' Compensation Insurance Plan (the "Oregon Insurance Plan"), administered by the National Council on Compensation Insurance through the National Workers' Compensation Reinsurance Pool. The Oregon Insurance Plan provides a guaranteed source of workers' compensation insurance for employers unable to obtain coverage because of unstable financial condition, poor loss experience, or the inherently dangerous nature of the work. The Company cedes such business to the Oregon Insurance Plan. In addition, the Company is required to assume its share of premiums and losses from the Oregon Insurance Plan based on voluntary market share.

The following amounts are included in the accompanying financial statements- statutory basis as a result of participation in the Oregon Insurance Plan (in thousands):

	2003	2002
Assumed:		
Liability for losses and loss adjustment expenses	$ 62,594	$ 42,034
Advance premiums	2,541	1,838
Premiums earned	31,685	17,091
Losses and loss adjustment expenses incurred	30,976	15,560
Ceded:		
Liability for losses and loss adjustment expenses	$ 75,240	$ 63,629
Advance premiums	3,985	3,820
Premiums earned	36,387	18,400
Losses and loss adjustment expenses incurred	23,358	14,085

16. EDP EQUIPMENT AND SOFTWARE

Electronic Data Processing ("EDP") equipment, operating and nonadmitted nonoperating software are carried at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method over the lesser of the estimated useful life of the related asset or three years for EDP equipment and operating system software. Depreciation expense for nonadmitted nonoperating system software is computed using the straight-line method over the lesser of the estimated useful life of the related asset or three to five years. There were no nonoperating software assets admitted at December 31, 2003.

EDP equipment consisted of the following at December 31, 2003 and 2002 (in thousands):

	2003	2002
EDP equipment	$ 9,226	$ 9,714
Accumulated depreciation	(8,158)	(8,033)
Balance—net	$ 1,068	$ 1,681

Depreciation expense related to EDP equipment and operating and nonadmitted nonoperating software totaled $2.1 million and $2.4 million for the years ended December 31, 2003 and 2002, respectively.

17. NONCASH TRANSACTIONS

Noncash investment transactions were $37.2 million and $92.3 million for both acquisitions and dispositions resulting from conversions and tax free exchange transactions for the years ended December 31, 2003 and December 31, 2002, respectively.

18. RECONCILIATION OF ANNUAL STATEMENTS TO AUDITED STATUTORY-BASIS FINANCIAL STATEMENTS

The following illustrates the differences between the annual statements as filed with the Insurance Division and the audited financial statements-statutory basis (as restated).

The primary differences are the result of reclassifications and adjustments including the effect of trade date accounting on certain security transactions, changes in accounting for commuatation agreements, and other adjustments related to recording reinsurance ceded and assumed. The reclassifications and adjustments were made after the annual statements were filed and are as follows (in thousands):

2003	Filed	Audited Restated (see Note 19)	Difference
Statement of admitted assets, liabilities, capital and surplus:			
Common stock	$ 393,164	$ 369,391	$ (23,773)
Cash and short-term investments	114,925	116,227	1,302
Receivable for securities	106,017	130,617	24,600
All other assets	7,535	10,193	2,658
Losses	2,073,241	2,002,403	(70,838)
Other expenses	12,950	13,217	267
Unearned premiums	50,795	50,915	120
Amounts withheld or retained for account of others	22,747	25,757	3,010
Capital and surplus—unassigned funds	376,229	448,456	72,227
Statement of revenues, expenses, capital and surplus			
Premium earned	$ 304,616	$ 312,050	$ 7,434
Losses incurred	352,182	339,872	(12,310)
Other underwriting expenses incurred	84,268	81,288	(2,980)
Net realized capital gains	19,438	20,263	825
Net loss on balances charged off	(1,012)	(1,084)	(72)
Other income	(454)	(2,428)	(1,974)
Statement of cash flows:			
Premiums collected	$ 308,296	$ 310,795	$ 2,499
Loss and loss adjustment expenses paid	206,550	246,449	39,899
Underwriting expenses paid	119,297	78,902	(40,395)
Other operating income and expense—net	24,611	22,834	(1,777)
Proceeds from investments sold, matured or repaid:			
Common and preferred stocks	$ 466,835	$ 491,436	$ 24,601
Miscellaneous proceeds	(65,129)	(89,729)	(24,600)
Cash from financing and miscellaneous sources sources—other cash provided, net	$ 11,302	$ 11,383	$ 81

2002	Filed	Audited Restated (see Note 19)	Difference
Statement of admitted assets, liabilities, capital and surplus:			
All other assets	$ 12,400	$ 9,457	$ (2,943)
Losses	1,927,584	1,872,291	(55,293)
Other expenses	11,732	13,357	1,625
Statement of revenues, expenses, capital and surplus:			
Premium earned	$ 292,691	$ 287,635	$ (5,056)
Losses incurred	320,480	312,162	(8,318)
Other underwriting expenses incurred	75,971	77,346	1,375
Other income	915	918	3
Statement of cash flows:			
Premium collected net of reinsurance	$ 264,673	$ 264,241	$ (432)
Loss and LAE expenses paid	(179,515)	(226,255)	(46,740)
Underwriting expenses paid	(111,268)	(76,520)	34,748
Other operating income and expense—net	21,079	22,622	1,543
Cash from financing and miscellaneous sources—other cash provided, net	$ (9,322)	$ 1,559	$ 10,881

19. RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the issuance of SAIF's financial statements – statutory basis for the year ended December 31, 2002, the Company's management determined that the estimates of premiums, losses and reserves associated with policies ceded to and assumed from the National Workers' Compensation Reinsurance Pool as of December 31, 2002 were not properly recorded. The accompanying 2002 financial statements – statutory basis have been restated from amounts previously reported to properly reflect this reinsurance activity as described in the tables below (in thousands). Those restated financial statements – statutory basis were issued on September 17, 2004.

Subsequent to the issuance of SAIF's financial statements – statutory basis for the year ended December 31, 2003, SAIF's management determined that estimated recoverables under reinsurance agreements were improperly recorded at discounted amounts in anticipation of entering into commutation agreements with reinsurers. Statutory Accounting Principals require that reinsurance recoverables be stated at their undiscounted amounts. Any impact from commutation agreements should not be recorded prior to such commutation. As a result, capital and surplus, reserves for loss and loss adjustment expenses, and loss and loss adjustment expenses incurred have been restated from amounts previously reported as described in the tables below (in thousands):

	As Previously Reported	As Previously Restated	As Restated
At January 1, 2002:			
Capital and surplus—unassigned funds	$ 374,678	$ 374,678	$ 423,513
At December 31, 2002:			
Capital and surplus—unassigned funds	261,797	254,133	312,522
Other assets	5,931	9,457	9,457
Loss reserves	1,927,584	1,930,680	1,872,291
Other expenses	11,732	13,357	13,357

	As Previously Reported	As Previously Restated	As Restated
For the year ended December 31, 2002:			
Net premiums earned	$ 292,691	$ 287,635	$ 287,635
Losses incurred	320,480	321,716	312,162
Other underwriting expenses	75,971	77,346	77,346
Other income	915	918	918
Net loss	(12,249)	(19,913)	(10,359)

	As Previously Reported	As Restated
At December 31, 2003:		
Capital and surplus—unassigned funds	$ 391,424	$ 448,456
Loss reserves	2,059,435	2,002,403
For the year ended December 31, 2003:		
Losses incurred	338,515	339,872
Net loss	(5,631)	(6,988)

20. SUBSEQUENT EVENTS

In June 2001, the Marion County Circuit Court of the State of Oregon issued a Stay Order, which required the Company to conduct a fair and faithful review of the Company's records to identify all documents responsive to a public records request. On August 25, 2004, the Company was found to be in contempt of the Court's Stay Order. The fine imposed on the Company included the plaintiff's legal expenses and an amount equal to the full amount of the compensation provided to two former executives during the period of time the contemptuous conduct began until September 13, 2004. The Company approximates these fines to be between $2 and $3 million. On September 13, 2004 the Court requested briefing from both parties on whether the court had the authority to issue a sanction retroactively or punitively. A court date has been set for January 11, 2005. Since the amount of fines that may be imposed and the period to which they apply is uncertain, no amount has been recorded in these financial statements. Management believes the amount of fine imposed by the Court will not have a material effect on the financial position, results of operations, or cash flows of the Company.

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SUPPLEMENTAL SCHEDULES

APPENDIX A—SUMMARY INVESTMENT SCHEDULE

APPENDIX B—SUPPLEMENTAL INVESTMENT RISK INTERROGATORIES

APPENDIX A

SUMMARY INVESTMENT SCHEDULE

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings 1 Amount	2 Percentage	Admitted Assets as Reported in the Annual Statement 3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	335,060,991	11.883	335,060,991	11.883
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies				
1.22 Issued by U.S. government sponsored agencies	92,066,943	3.265	92,066,943	3.265
1.3 Foreign government (including Canada, excluding mortgage-backed securities)	39,404,307	1.398	39,404,307	1.398
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations				
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations	4,778,059	0.169	4,778,059	0.169
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Guaranteed by GNMA	355,514,403	12.609	355,514,403	12.609
1.512 Issued by FNMA and FHLMC	370,970,010	13.157	370,970,010	13.157
1.513 Privately issued				
1.52 CMOs and REMICs:				
1.521 Issued by FNMA and FHLMC	2,658,841	0.094	2,658,841	0.094
1.522 Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC	10,800,359	0.383	10,800,359	0.383
1.523 All other privately issued	80,256,428	2.846	80,256,428	2.846
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	724,572,832	25.698	724,572,832	25.698
2.2 Unaffiliated foreign securities	120,495,640	4.274	120,495,640	4.274
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	352,464,521	12.501	352,464,521	12.501
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated	35,943,474	1.275	35,943,474	1.275
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated	16,926,038	0.600	16,926,038	0.600
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated				
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated	10,086,635	0.358	10,086,635	0.358
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties	335,673	0.012	335,673	0.012
4.4 Multifamily residential properties				
4.5 Commercial loans	266,554	0.009	266,554	0.009
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by company	19,139,864	0.679	19,139,864	0.679
5.2 Property held for production of income (includes $ 0 of property acquired in satisfaction of debt)	977,128	0.035	977,128	0.035
5.3 Property held for sale ($ 0 including property acquired in satisfaction of debt)				
6. Policy loans				
7. Receivables for securities	130,616,496	4.633	130,616,496	4.633
8. Cash and short-term investments	116,226,922	4.122	116,226,922	4.122
9. Other invested assets				
10. Total invested assets	2,819,562,118	100.000	2,819,562,118	100.000

APPENDIX B

SUPPLEMENTAL INVESTMENT RISK INTERROGATORIES

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

Due April 1
For the year ended December 31, 2003

Of The SAIF Corporation Insurance Company

Address (City, State, Zip Code) 400 High Street SE, Salem, OR 97312

NAIC Group Code 0000 NAIC Company Code 36196 Employer's ID Number 93-6001769

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by stating the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments as shown on the Summary Investment Schedule. All reporting entities must answer interrogatories 1 through 4, 11, 13 through 17, 19 and if applicable, 20 through 24. Answer each of interrogatories 5 through 10 only if the reporting entity's aggregate holding in the gross investment category addressed in interrogatory 4 equals or exceeds 2.5% of the reporting entity's total admitted assets. Answer interrogatory 12 only if the reporting entity's aggregate holding in the gross investment catagory addressed in interrogatory 11 equals or exceeds 2.5% of the reporting entity's total admitted assets. Answer interrogatory 18 only if the reporting entity's aggregate holding in the gross investment category addressed in interrogatory 17 equals or exceeds 2.5% of the reporting entity's total admitted assets. For Life, Health and Fraternal blanks, responses are to exclude Separate Accounts. For Property Casualty blank, responses are to exclude Protected Cell Accounts.

1. State the reporting entity's total admitted assets as reported on Page 2 of this annual statement. $ 2,981,991,388

2. State by investment category the 10 largest exposures to a single issuer/borrower/investment, excluding U.S. government, U. S. government agency securities and those U. S. Government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, property occupied by the company and policy loans.

	1 Investment Category	2 Amount	3 Percentage of Total Admitted Assets
2.01	BGI Russell 3000 Index Fund	$ 352,464,521	11.820 %
2.02	Lehman Brothers	$ 103,099,092	3.457 %
2.03	Ford Motor Credit	$ 19,457,669	0.653 %
2.04	Tyco Intl Group	$ 19,062,774	0.639 %
2.05	Goldman Sachs Group	$ 17,566,418	0.589 %
2.06	Morgan Stanley	$ 17,201,894	0.577 %
2.07	Morgan Stanley Group	$ 17,190,926	0.576 %
2.08	Asset Securitization Corp	$ 16,978,060	0.569 %
2.09	North Telecomm PVT	$ 14,207,417	0.476 %
2.10	Green Tree Financial	$ 13,685,932	0.459 %

3. State the amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds	1	2		Preferred Stocks	3	4
3.01	NAIC-1	$ 1,728,681,612	57.971 %	3.07	P/RP-1	$ 984,900	0.033 %
3.02	NAIC-2	$ 272,192,720	9.128 %	3.08	P/RP-2	$ 3,532,568	0.118 %
3.03	NAIC-3	$ 109,139,765	3.660 %	3.09	P/RP-3	$ 18,824,164	0.631 %
3.04	NAIC-4	$ 75,722,977	2.539 %	3.10	P/RP-4	$ 9,727,992	0.326 %
3.05	NAIC-5	$ 21,050,348	0.706 %	3.11	P/RP-5	$ 2,873,850	0.096 %
3.06	NAIC-6	$	%	3.12	P/RP-6	$	%

4. State the amounts and percentages of the reporting entity's total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investments denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge accounting as specified in SSAP No. 31 - Derivative Instruments and SSAP No. 86 - Derivative Instruments), including (4.01) foreign-currency-denominated investments of $ 0 ; .000 % (4.02) supporting insurance liabilities denominated in that same foreign currency of $ 0 ; .000 % and excluding (4.03) Canadian investments and currency exposure of $ 0 ; .000 %

Assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatories 5 - 10.(4.04) Yes [ ] No [X]

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

		1	2
5.01	Countries rated NAIC-1	$ 82,213,484	2.757 %
5.02	Countries rated NAIC-2	$ 20,606,892	0.691 %
5.03	Countries rated NAIC-3 or below	$ 19,790,647	0.664 %

6. Two largest foreign investment exposures to a single country, categorized by the country's NAIC sovereign rating:

		1	2
	Countries rated NAIC-1:		
6.01	Country: Netherlands	$ 20,557,992	0.689 %
6.02	Country: Luxembourg	$ 19,062,774	0.639 %
	Countries rated NAIC-2:		
6.03	Country: Mexico	$ 16,565,958	0.556 %
6.04	Country: South Africa	$ 2,896,273	0.097 %
	Countries rated NAIC-3 or below:		
6.05	Country: Russia	$ 4,372,128	0.147 %
6.06	Country: Brazil	$ 3,571,923	0.120 %

		1	2
7.	Aggregate unhedged foreign currency exposure	$	%

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

		1	2
8.01	Countries rated NAIC-1	$	%
8.02	Countries rated NAIC-2	$	%
8.03	Countries rated NAIC-3 or below	$	%

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

		1	2
	Countries rated NAIC-1:		
9.01	Country:	$	%
9.02	Country:	$	%
	Countries rated NAIC-2:		
9.03	Country:	$	%
9.04	Country:	$	%
	Countries rated NAIC-3 or below:		
9.05	Country:	$	%
9.06	Country:	$	%

10. List the 10 largest non-sovereign (i.e. non-governmental) foreign issues:

	1 NAIC Rating	2	3
10.01	NAIC rating 3 Tyco Intl Group	$ 19,062,774	0.639 %
10.02	NAIC rating 2 CE Electric UK Funding	$ 7,605,818	0.255 %
10.03	NAIC rating 1 Telefonica Europe	$ 5,127,128	0.172 %
10.04	NAIC rating 1PE Stmicrolectonics	$ 5,000,000	0.168 %
10.05	NAIC rating 1 Renaissancere Holdings	$ 4,995,194	0.168 %
10.06	NAIC rating 1PE Kreditanstalt Fuer Wieder	$ 4,268,315	0.143 %
10.07	NAIC rating 2PE CIA Brasileira De Bebida	$ 3,571,923	0.120 %
10.08	NAIC rating 2 Deutsche Telekom Intl	$ 3,236,051	0.109 %
10.09	NAIC rating 4 ASM Lithography Conv	$ 2,602,000	0.087 %
10.10	NAIC rating 1 HBOS Plc	$ 2,588,543	0.087 %

11. State the amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency-denominated investments of (11.01) $ 0 ; .000 % supporting Canadian-denominated insurance liabilities of (11.02) $ 0 ; .000 %

Assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 12. (11.03) Yes [X] No [ ]

12. Aggregate Canadian investment exposure.

		1	2
12.01	Canadian investments	$	%
12.02	Unhedged Canadian currency exposure	$	%

13. State the aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days).

Assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 13. Yes [ ] No [X]

	1	2	3
13.01	Aggregate statement value of investments with contractual sales restrictions	$	%
	Largest 3 investments with contractual sales restrictions:		
13.02		$	%
13.03		$	%
13.04		$	%

14. State the amounts and percentages of admitted assets held in the largest 10 equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt or Class 1).

Assets held in equity interests less than 2.5% of the reporting entity's total; admitted assets, therefore detail not required for interrogatory 14. Yes [ ] No [X]

	1 Investment Category	2	3
14.01	BGI Russell 3000 Index	$ 352,464,521	11.820 %
14.02	KKR Limited Partnerships	$ 10,086,635	0.338 %
14.03	TXU Corp	$ 6,258,353	0.210 %
14.04	Sempra Energy	$ 6,083,325	0.204 %
14.05	Teekay Shipping Corp	$ 5,586,987	0.187 %
14.06	Oneok Inc	$ 3,303,160	0.111 %
14.07	Constellation Brands Inc	$ 3,023,580	0.101 %
14.08	Alltell Corp	$ 2,996,910	0.101 %
14.09	Rouse Co	$ 2,912,050	0.098 %
14.10	Equity Securities Trust	$ 2,873,850	0.096 %

15. State the amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under Securities Exchange Commission (SEC) Rule 144a or SEC Rule 144 without volume restrictions.

Assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 15. Yes [X] No [ ]

	1	2	3
15.01	Aggregate statement value of investments held in nonaffiliated, privately placed equities	$	%
	Largest 3 investments held in nonaffiliated, privately placed equities:		
15.02		$	%
15.03		$	%
15.04		$	%

16. State the amounts and percentages of the reporting entity's total admitted assets held in general partnership interests (included in other equity securities).

Assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 16. Yes [X] No [ ]

	1	2	3
16.01	Aggregate statement value of investments held in general partnership interests.	$	%
	Largest 3 investments in general partnership interests:		
16.02		$	%
16.03		$	%
16.04		$	%

17. With respect to mortgage loans reported in Schedule B, state the amounts and percentages of the reporting entity's total admitted assets held.

Mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatories 17 and 18. Yes [X] No [ ]

Each of the 10 largest aggregate mortgage interests. The aggregate mortgage interest represents the combined value of all mortgages secured by the same property or same group of properties:

	1 Type (Residential, Commercial, Agricultural)	2	3
17.01		$	%
17.02		$	%
17.03		$	%
17.04		$	%
17.05		$	%
17.06		$	%
17.07		$	%
17.08		$	%
17.09		$	%
17.10		$	%

18. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

	Loan-to-Value	Residential		Commercial		Agricultural	
		1	2	3	4	5	6
18.01	above 95%	$	%	$	%	$	%
18.02	91% to 95%	$	%	$	%	$	%
18.03	81% to 90%	$	%	$	%	$	%
18.04	71% to 80%	$	%	$	%	$	%
18.05	below 70%	$	%	$	%	$	%

		Loans	
		1	2
18.06	Construction loans	$	%
18.07	Mortgage loans over 90 days past due	$	%
18.08	Mortgage loans in the process of foreclosure	$	%
18.09	Mortgage loans foreclosed	$	%
18.10	Restructured mortgage loans	$	%

19. State the amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate reported in Schedule A, excluding property occupied by the company.

Assets held in each of the five largest investment in one parcel or group of contiguous parcels of real estate reported in Schedule A less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 19.Yes [X] No [ ]

	1	2	3
19.01		$	%
19.02		$	%
19.03		$	%
19.04		$	%
19.05		$	%

20. State the amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

		At Year-end		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
20.01	Securities lending (do not include assets held as collateral for such transactions)	$ 442,458,818	14.838 %	$ 29,805,444	$ 78,177,263	$ 310,091,272
20.02	Repurchase agreements	$	%	$	$	$
20.03	Reverse repurchase agreements	$	%	$	$	$
20.04	Dollar repurchase agreements	$	%	$	$	$
20.05	Dollar reverse repurchase agreements	$	%	$	$	$

21. State the amounts and percentages indicated below for warrants not attached to other financial instruments, options, caps, and floors:

		Owned		Written	
		1	2	3	4
21.01	Hedging	$	%	$	%
21.02	Income generation	$	%	$	%
21.03	Other	$	%	$	%

22. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for collars, swaps, and forwards:

		At Year-end		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
22.01	Hedging	$	%	$	$	$
22.02	Income generation	$	%	$	$	$
22.03	Replications	$	%	$	$	$
22.04	Other	$	%	$	$	$

23. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC *Annual Statement Instructions*) for *futures contracts*:

		At Year-end		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
23.01	Hedging	$	%	$	$	$
23.02	Income generation	$	%	$	$	$
23.03	Replications	$	%	$	$	$
23.04	Other	$	%	$	$	$

24. State the amounts and percentages of 10 largest investments included in the Write-ins for Invested Assets category included on the Summary Investment Schedule.

	1	2	3
24.01		$	%
24.02		$	%
24.03		$	%
24.04		$	%
24.05		$	%
24.06		$	%
24.07		$	%
24.08		$	%
24.09		$	%
24.10		$	%